

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-01
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FM AMEMBASSY BRUSSELS

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INFO USMISSION OECD PARIS

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E. O. 11652: N/A

TAGS: EFIN, ECON, ELAB, BE

SUBJECT: COMMENT ON THE EGMONT PLAN

REF: BRUSSELS 1471

1. SUMMARY. IN REALIGNING THE 1977 BUDGET THIS PAST WEEK-END, THE TINDEMANS GOVERNMENT HAS INTENT ON SURVIVING AND REDUCING THE THREAT TO ITS CURRENCY POSED BY A HUGE AND GROWING OVERHANG OF PUBLIC DEBT. POLITICALLY, TINDEMANS WAS ABLE TO REPLASTER HIS SHAKY MAJORITY DESPITE GENERALLY NEGATIVE REACTION TO NEWS OF HIGHER TAXES. HOW LONG THE REPLASTERING WILL HOLD REMAINS TO BE SEEN. ECONOMICALLY, THE PLAN'S ULTIMATE EFFECTS WILL PROBABLY BE NEUTRAL OR MARGINALLY STIMULATIVE IF ONE EXPECTS--AS WE DO--THAT THE BUDGET DEFICIT WILL GROW AGAIN DURING THE YEAR. END SUMMARY.

2. WHAT WAS TO HAVE BEEN A PAINFUL BUDGET-CUTTING

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EXERCISE LAST WEEKEND PRODUCED INSTEAD THE "EGMONT PLAN", AN ENSEMBLE OF MEASURES WHICH HAS HAD A LARGELY HOSTILE RECEPTION FROM LABOR, BUSINESS, THE OPPOSITION PARTIES AND THE PRESS. MOST OF THE REACTION HAS FOCUSED ON THE RISE IN VAT ON CERTAIN GOODS, INCLUDING SOME LUXURY ITEMS, BUT ALSO THE AVERAGE BELGIAN'S CIGARETTES, BEER, MOVIES AND GASOLINE. THE MAIN LABOR UNIONS HAVE BEEN PARTICULARLY VEHEMENT ON

THE TAX INCREASES AS WELL AS ON WHAT THEY SEE AS INADEQUATE PROVISIONS FOR EASING UNEMPLOYMENT. THEY WILL EXPRESS THEIR DISSATISFACTION WITH A MONTH-LONG SERIES OF 24-HOUR STRIKES BEGINNING FEBRUARY 25. AT PRESENT, HOWEVER, IT SEEMS DOUBTFUL THAT THESE STRIKES WILL EITHER DIVIDE THE COALITION OR CAUSE THE GOVERNMENT TO REVISE ITS PLAN.

3. THE TAX INCREASE HAS ALLOWED TINDEMANS TO SIDESTEP SOME TOUGH FISCAL AND SOCIAL QUESTIONS AND HOLD HIS SHAKY MAJORITY TOGETHER. AS NONE OF THE COALITION PARTNERS APPEARS READY TO PRECIPITATE NEW ELECTIONS, TINDEMANS APPEARS TO HAVE WEATHERED YET ANOTHER BATTERING OF HIS LEAKY BOAT.

4. THE EGMONT PLAN DOES NOT PRETEND TO BE A GENERAL PLAN FOR THE ECONOMY (SEVERAL DAYS AFTER ITS ANNOUNCEMENT TOP MACROECONOMIC ANALYSTS IN THE GOVERNMENT WERE STILL HUNTING AROUND TOWN FOR COPIES OF IT). ITS IMMEDIATE EFFECT WILL BE SOMEWHAT DEPRESSIVE--THE RISE IN INDIRECT TAXATION IN APRIL WILL REDUCE CONSUMERS' DISPOSABLE INCOME AND RAISE BUSINESS COSTS WELL BEFORE THE IMPACT OF ACCELERATED PUBLIC WORKS SPENDING AND ANY PUSH TO PRIVATE INVESTMENT FROM LIBERALIZED TAX WRITE-OFF RULES IS FELT. IT IS DOUBTFUL, HOWEVER, THAT THE OPERATING BUDGET DEFICIT NOW SET AT BF 28.6 BILLION CAN BE HELD THERE, EVEN WITH THE NEW TAXES. IT IS BASED ON A REAL GNP GROWTH (3.4 PERCENT) WHICH IS ON THE HIGH END OF MOST ESTIMATES HERE. THERE COULD STILL BE A SERIOUS SHORTFALL IN RECEIPTS, AS WELL AS ADDITIONAL UNEMPLOYMENT COSTS. ALSO, LINE ITEMS OTHER THAN UNEMPLOYMENT BENEFITS AND TRANSPORT HAVE NOT BEEN LIMITED OFFICIAL USE

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INCREASED--BUT IF EXPERIENCE IS ANY GUIDE, THEY WILL ALMOST CERTAINLY NEED ADDITIONAL FUNDING LATER THIS SPRING.

5. IT THUS APPEARS QUITE POSSIBLE THAT TOTAL OFFICIAL FINANCING REQUIREMENTS THIS YEAR WILL EXCEED BY AS MUCH AS 30 BILLION FRANCS THE ESTIMATED BF 220 BILLION NEEDED IN 1976. ASSUMING SOME SUCH ORDER OF INCREASE, LAST WEEK-END'S DECISIONS MEAN THAT FISCAL STIMULATION OF THE BELGIAN ECONOMY WILL REMAIN ABOUT THE SAME OR INCREASE ONLY marginally COMPARED TO 1976. THE GOVERNMENT IS CLEARLY STILL COUNTING MAINLY ON RECOVERY IN THE MAJOR INDUSTRIALIZED COUNTRIES TO PROPEL THE TRADE-ORIENTED BELGIAN ECONOMY OUT OF ITS DOLDRUMS. RENNER

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Control Number: n/a
Copy: SINGLE
Sent Date: 18-Feb-1977 12:00:00 am
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Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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